

VZCZCXRO9003  
RR RUEHBC RUEHDE RUEHIHL RUEHKUK  
DE RUEHGB #0175 0161721  
ZNY CCCCC ZZH  
R 161721Z JAN 07  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 9128  
INFO RUCNRAQ/IRAQ COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L BAGHDAD 000175

SIPDIS

SIPDIS

E.O. 12958: DECL: 01/15/2017

TAGS: [ECON](#) [EFIN](#) [IZ](#)

SUBJECT: COR MEMBER DICUSSES BUDGET, POWER STRUGGLES, AND THE NEW STRATEGY

REF: 2006 BAGHDAD 3812

Classified By: Economic Minister-Counselor Daniel Weygandt for reasons 1.4 (b) and (d).

¶1. (C) Summary: Council of Representatives member Dr. Mehdi Hafedh (Shi'a - Iraqiyya) discussed the budget, the Prime Minister's struggle for power, and the new economic plan with the Economic Minister-Counselor on January 15. Dr. Hafedh said that the Ministry of Finance violated the Financial Management Law in its presentation of the 2007 budget to the Council of Representatives (CoR). Both the Shi'a and the Sunni coalitions within the government were splintering, he said, and Prime Minister Maliki's position is precarious. Dr. Hafedh largely agreed with the joint security and economic strategy described in President Bush's January 10 speech, and urged the U.S. "to be tough with the Iraqis".  
End summary.

-----  
The 2007 Budget: Badly Formulated and Incomplete  
-----

¶2. (C) Dr. Hafedh criticized the 2007 draft budget before the CoR, saying that the Minister of Finance has been dismissive of members' concerns. He noted that the budget arrived at the CoR without the final accounts from 2006, which he said was a violation of the Financial Management Law. Dr. Hafedh still thinks that the budget will be approved this month, and sources many of the problems to a lack of ministerial capacity, particularly at the Ministry of Finance.

¶3. (C) Major concerns of the CoR have focused on the budgets of the presidential council. "People see that the President has requested \$50 million for airplanes, and they think that the government is not being serious," Dr. Hafedh said. He noted that everyone, including President Bush, is using the '10 billion dollars in investment' phrase, but that there is no clear investment plan. He would prefer that more attention be paid to productive activities, particularly with regards to employment. "Government jobs," he said, "particularly the senior government jobs proposed in this budget, are not productive parts of the economy."

-----  
Shifting Power Dynamics in the Iraqi Government  
-----

¶4. (C) Dr. Hafedh thinks that the Shi'a coalition, the United Iraqi Alliance, is splintering as different groups struggle for power. He said that the balance of power within this coalition may not end up favoring Prime Minister Maliki. The Sunni groups in the CoR are also fluctuating, he said, and the uncertainty is distracting members from their responsibilities as public servants. As he has told econoffs before, Dr. Hafedh said that Prime Minister Maliki does not

trust his advisors (reftel).

-----  
Support for President Bush's New Strategy  
-----

¶5. (C) Dr. Hafedh was largely supportive of the strategy outlined by President Bush on January 10. He particularly approved of the plan to integrate the security and economic efforts, and he urged the U.S. "to be tough with the Iraqis". He also appreciated the USG position on the hydrocarbon law, saying that central management and federal control of the distribution of revenues were key elements of a successful law.

KHALILZAD